Docket Nos. 00-0620/00-0621
(Consolidated)
ICC Staff Exhibit 1.0

**DIRECT TESTIMONY**

**OF**

**CHARLES C. S. IANNELLO**

**ECONOMIC ANALYST**

**ILLINOIS COMMERCE COMMISSION**

**ENERGY DIVISION -- POLICY SECTION**

**NORTHERN ILLINOIS GAS COMPANY**

**d/b/a Nicor Gas Company**

**DOCKET NOS. 00-0620/00-0621**

**CUSTOMER SELECT PROGRAM**

**DECEMBER 19, 2000**

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## ATTACHMENTS

## I. INTRODUCTION

Q. State your name and business address.

A. Charles C. S. Iannello, Illinois Commerce Commission, 527 East Capitol Avenue, Springfield, Illinois, 62701.

Q. By whom are you employed and in what capacity?

A. I am employed as an Economic Analyst in the Illinois Commerce Commission's ("Commission") Energy Division -- Policy Program.

Q. What are the responsibilities of an Economic Analyst in the Energy Division -- Policy Program?

A. An Economic Analyst in the Energy Division -- Policy Program, conducts research and economic analyses of the gas and electric industries, reviews filings and prepares recommendations to the Commission, acts as a policy advisor to hearing examiners, identifies policy issues in Commission dockets and prepares written and oral testimony that sets forth opinions and positions on pertinent policy issues.

Q. State your educational background and professional experience.

A. I hold a Bachelor of Science degree in Economics with a concentration in Finance from the State University of New York College at Buffalo, and a Master of Science degree in Economics from the University of Wyoming with fields in both Regulatory and Environmental Economics. Prior to attending graduate school, I was employed by Smith Barney Incorporated as a financial consultant's assistant. During graduate school I worked as a research and teaching assistant in the Department of Economics. I have been with the Illinois Commerce Commission since September 1998.

Q. Please summarize your testimony.

A. My testimony addresses a retail gas unbundling program called Customer Select, which Northern Illinois Gas Company d/b/a Nicor Gas Company ("Nicor" or "Company") proposes to modify. The purpose of my testimony is to recommend certain modifications to the Company's proposal.

## II. BACKGROUND

Q. Please discuss the history behind the Customer Select Program ("Customer Select" or "Program").

A. In October of 1997, the Commission approved Nicor's filing to place into effect Rider 15, Customer Select Pilot Program, Rider 16, Supplier Aggregation Service, and some proposed revisions to existing tariff sheets. The combination of these tariffs allowed Nicor to offer a pilot transportation program ("Pilot Program") to small volume industrial and commercial customers that had not chosen to take transportation service under existing transportation tariffs. Initially, Customer Select was available on a first-come, first-served basis to customers served under Rate 4, General Service, Rate 10, Compressed Natural Gas, and Rate 11, Energy Service with a participation limit of 20,000 customers.

In September 1998, Nicor received approval to expand availability of the Pilot Program to a total of approximately 65,000 industrial and commercial customers and 80,000 residential customers. The second year of the Pilot Program commenced on May 1, 1999, and marked the first time that residential customers in Nicor's service territory were allowed to choose their own natural gas supplier.

In September 1999, Nicor received approval to expand availability of the Customer Select Pilot Program to approximately 265,000 residential customers and all commercial and industrial customers. The third year of the Customer Select Pilot Program began on May 1, 2000, and 12 competing suppliers are currently serving more than 122,000 industrial, commercial and residential customers.

On August 11, 2000, Nicor filed revised tariff sheets for Rider 15 and Rider 16 and related changes to Rider 6 and the Company's Terms and Conditions. The Commission suspended Nicor's filing on September 20, 2000, and the instant proceeding was initiated. On November 1, 2000, the Commission approved a Nicor filing that complied with the Commission's Suspension Order in the instant proceeding by extending the term of the Customer Select Pilot Program through

April of 2002 and ensuring the "seamless availability of Riders 15 and 16 to those already served under these riders." (p. 2)

Q. Please describe the Company's proposed Customer Select Program.

A. Nicor proposes to place into effect Rider 15, Customer Select, Rider 16, Supplier Aggregation Service, and some proposed revisions to existing tariff sheets. The combination of these tariffs allows Nicor to offer a gas transportation program whereby customers can arrange to have the Company deliver natural gas commodity purchased from competitive suppliers. The optional Customer Select program would be available as an alternative to traditional bundled sales service in which the Company provides the customer with natural gas commodity at a regulated rate. All industrial, commercial, and residential customers would be eligible to participate although the Program is designed to accommodate customers without daily metering technology. (Large customers with advanced metering technology tend to find service under other transportation riders more economical.) Most residential customers would have the option to choose an alternative supplier for the first time under Customer Select.

Q. Were you familiar with Nicor's Customer Select Pilot Program before the initiation of the instant proceeding?

A. Yes. Since October 1998, I have followed the Customer Select Pilot Program and reviewed various filings to extend, expand, and modify the Pilot Program.

Q. Does Nicor propose substantive changes to the Customer Select Pilot Program?

A. Yes. The Company is proposing to make several changes to Riders 15 and 16, and related changes to Rider 6 and the Company's Terms and Conditions. I summarize Nicor's proposed revisions below:

## A. Nicor's Proposed Revisions to Rider 15, Customer Select Pilot Program

Q. Please summarize the Company's proposed changes to Rider 15, Customer Select Pilot Program.

A. First and foremost, the Company proposes to eliminate the termination date and make the permanent program generally available to all customers on the Company's system except municipal accounts receiving franchise gas or accounts with multiple meters.

Nicor's other proposed revisions to Rider 15 include:

- Limiting a customer's exposure to "gas related costs" rather than "fees" in the event that a supplier fails to reimburse the Company for services rendered.
- New language prohibiting customers served under Customer Select from designating their supplier as the bill recipient for bills rendered by the Company.
- Elimination of the enrollment period and an allowance for customers to switch suppliers once per billing period on a year-round basis.
- Allowance for continuation of service in the event that a customer changes service locations within the Company's service territory.
- Reducing from 60 to 45, the number of days a customer can be in arrears before being returned to sales service by the supplier. Customers returned to sales

service or non-payment would be required to remain on sales service for a period of not less than twelve months.

- Customers returned to sales service for any reason other than non-payment would be required to remain on sales service for a period of not less than twelve months or choose an alternative supplier within 45 days of returning to sales service.

- Proposed language that dictates the order in which monies from third parties such as the Low Income Energy Assistance Program, will be distributed among suppliers and the Company.

### B. Nicor's Proposed Revisions To Rider 16, Supplier Aggregation Service

Q. Please summarize the Company's proposed changes to Rider 16, Supplier Aggregation Service.

A. Nicor's proposed revisions to Rider 16, Supplier Aggregation Service include:

- Eliminating the $10.00 Group Additions Charge for customers switching from sales service to the Customer Select Program.

- Increasing the month-end delivery tolerance. This increases the amount of gas in a supplier's account that can be carried over to the next month. This change also reduces the volumes of gas that the Company either purchases from or sells to suppliers at the end of each month to balance supplier accounts.

- Introducing several new charges including an Operational Flow Order Non-Performance Charge and a Required Daily Delivery Non-Performance Charge that replaces the Non-Critical Day Non-Performance Charge.

- Adding a "Required Daily Delivery Range" section that explains the amount by which suppliers' nominations are allowed to vary from Required Daily Deliveries and the amount that suppliers' actual deliveries for the month may vary from the Company's Required Daily Deliveries for the month.

- Assigning storage capacity in the amount of 26 times a supplier's group Maximum Daily Contract Quantity ("MDCQ") and six times their group MDCQ for balancing.

- Defining the method of determining storage injections and withdrawals.

- Increasing the firm transportation requirements from 28% to 32%.

- Offering more flexibility in meeting the firm transportation requirements.

- Adding a new "System Operational Controls" section to Rider 16, which would provide Nicor with the ability to issue Operational Flow Orders ("OFOs") to suppliers delivering gas to Nicor's system.

- Introducing three new standards and one revised standard to the "Standards of Conduct" section. Also, an additional statement regarding enforcement of the Standards of Conduct has been added.

### C. Nicor's Proposed Revisions to Rider 6, Gas Supply Cost and Terms and Conditions

Q. Please summarize Nicor's proposed revisions to Rider 6, Gas Supply Cost and the Terms and Conditions in the Company's tariff.

A. In the Terms and Conditions, Nicor proposes new language to explain the calculation of the MDCQ for a group. In Rider 6, Gas Supply Cost, Nicor proposes language that would permit the Company to flow costs associated with the purchase of supplies during Operational Flow Order Periods through the Aggregator Balancing Service Charge and commodity costs through the Commodity Gas Charge.

### D. Areas of Concern

Q. What is your overall opinion of Nicor's proposed Customer Select Program?

A. I believe that the Customer Select program provides consumers with an important choice and the opportunity to benefit from alternatives to traditional sales service.

Q. Do you have any concerns about Nicor's proposed revisions to the Customer Select Program?

A. Yes. I am concerned with revisions to the following sections of the tariff found in Nicor Exhibit AEH-4: "System Operational Controls" on pages 9 and 10, "Charges" on pages 5 through 7, "Standards of Conduct" on pages 10 and 11, "Billing Date" on page 3, "Charges" on page 3, and "Billing and Payment" on page 4.

Throughout the remainder of my testimony, I identify these concerns and recommend changes to the Company's proposed tariff. My recommendations would improve program operation and increase the potential benefits associated with the Program.

## III. OPERATIONAL FLOW ORDERS

Q. Nicor proposes to introduce OFOs that would apply only to suppliers serving customers under the Customer Select Program. Please describe how Nicor proposes to apply OFOs under the Customer Select Program.

A. Under the new "System Operational Controls" section, the Company proposes language governing instances when the "...Company, in its sole discretion, determines that a situation is or may be developing that would impede the efficient operation of the system in which adequate pressures may not be maintained or overall integrity could be threatened." (Harms Ex. AEH-4, p. 10)

The Company proposes the use of OFOs to remedy situations where the Company, in its sole discretion, has determined that a system imbalance may occur. If such a determination is made, then "...the Company shall first request Suppliers to voluntarily increase or decrease nominations to the system, shift nominated volumes from certain pipeline citygate stations to other pipeline citygate stations, or take *other actions that would alleviate the situation.*" (Ibid.) If *voluntary actions* were insufficient, the Company would impose OFOs requiring suppliers to alter scheduled deliveries. If the OFOs were insufficient to alleviate the system imbalance, Nicor would alleviate the situation through any actions it deems necessary. Suppliers that do not adhere to the Company's orders would be assessed a penalty in the form of an Operational Flow Order Non-Performance Charge. Any costs incurred by Nicor to mitigate the system imbalance would flow through the Aggregator Balancing Service Charge -- a charge assessed to all suppliers in the Customer Select Program – in addition to costs for pipeline and storage services that are provided to suppliers under normal operating conditions.

Q. Do you have any concerns about the Company's proposed OFO language?

A. Yes. I question whether there is a real need for OFOs. At this point in time, the Company has not demonstrated to Staff's satisfaction that a need for OFOs exists, nor has the Company indicated that operational integrity has ever been threatened by the actions of suppliers participating in the Customer Select Program. In fact, annual throughput associated with the Customer Select Program amounts to approximately 5% of the annual throughput on the Company's entire system, and approximately 11% of the annual throughput associated with all transportation customers on the Company's system. Even if system imbalances arise in the future and OFOs become necessary to remedy imbalances, then such OFOs should not apply only to those suppliers participating in the Customer Select program. Volumes delivered by the Company and by suppliers serving large transportation customers under non-Customer Select transportation tariffs are no more or no less likely to create imbalances on the system that would precipitate a need for OFOs.

If the Company can demonstrate that OFOs are essential to system reliability, the Policy Program believes that all parties shipping gas on Nicor's system should be required to abide by OFOs, not just Customer Select suppliers. There is no fundamental difference between the Company, a supplier serving large volume customers, and a supplier serving customers under the Customer Select tariff. All shippers provide the same essential service -- provision of natural gas commodity to end-use customers on the Company's distribution system -- regardless of the tariff under which they operate. Thus, the need for, and implementation of, OFOs should be addressed in a separate proceeding where the tariff provisions apply to all parties serving customers on Nicor's distribution system.

Q. Do you have any other concerns with Nicor's proposed method for implementing OFOs?

A. Yes. The manner in which Nicor proposes to implement Operational Flow Orders is inefficient. Nicor proposes to require suppliers to shift their nominations on a pro-rata basis. Because the cost of shifting nominations would differ from one supplier to another, a requirement to shift nominations on a pro-rata basis would produce inefficient results.

Q. Why would costs associated with shifting nominations differ from one supplier to another?

A. Suppliers that are serving a relatively small number of customers in the Customer Select Program may hold capacity on a single pipeline with one citygate delivery point. Suppliers that are serving a relatively large number of customers in the Customer Select Program may hold capacity on several pipelines with several citygate delivery point options. Because suppliers generally acquire enough capacity to serve customers during periods of peak demand, some suppliers may hold excess capacity during off-peak periods. If the Company called an OFO requiring suppliers to deliver gas to an alternate citygate delivery point, any suppliers holding excess capacity to that city-gate delivery point would likely incur fewer costs than suppliers without available capacity to the same delivery point.

Nicor's proposed method of implementing OFOs would disregard any cost differences among suppliers and require all suppliers to shift deliveries in an inefficient manner on a pro-rata basis. This would not result in a least-cost solution to alleviating imbalances on Nicor's system. The pro-rata application of an OFO may place undue burdens on suppliers serving small numbers of customers if other suppliers, serving large numbers of customers, were able to shift nominations at a lower cost and recover those costs from suppliers facing higher costs.

Q. Have you identified any informational problems with the Company's proposed method for implementing OFOs?

A. Yes. The Company proposes language to give itself "...sole discretion..." in determining the need to alleviate situations that may impede the efficient operation of the Company's distribution system and require the issuance of an OFO. Nicor would presumably observe the potential for an operational problem developing on the system, and inform suppliers that they must take action to alleviate the situation. The Company would not be required to follow any guidelines in determining when an OFO should be issued.

Unlike a critical day, where weather forecasts allow suppliers to formulate expectations about the likelihood of Nicor imposing additional restrictions on supplier nominations, there would be no information available for suppliers to formulate expectations about the likelihood of Nicor issuing an OFO. Although the

Company's knowledge of its own capacity and capacity held by suppliers likely provides insight into potential problem areas on the system, the Company does not propose to share this insight.

Q. Have you identified any incentive problems with the Company's proposed method for implementing OFOs?

A. Yes. OFOs could enable the Company to reduce its gas costs by shifting the burden of alleviating potential operational problems onto suppliers in the Customer Select program.

The Company's Gas Cost Performance Program ("GCPP"), a performance-based rate program, measures the Company's gas purchasing performance against a benchmark consisting of several variable components and one fixed component. The costs covered by the GCPP are costs that have traditionally been recovered through a Purchased Gas Adjustment ("PGA") and include the cost of natural gas commodity, interstate pipeline transportation, and off-system storage. At the end of each calendar year, the Company's gas costs are measured against the benchmark to determine the level of savings or losses for the program year. If the Company's costs exceed the benchmark, the Company absorbs 50% of the losses from ratepayers. If gas costs fall below the benchmark, the Company recovers 50% of the savings from ratepayers. Hence, the GCPP provides the Company with an incentive to lower gas costs.

To the extent OFOs enable the Company to reduce its gas costs by shifting the cost burden of alleviating potential operational problems onto suppliers, the Company has an incentive to call OFOs and reduce its costs relative to the GCPP's benchmark. OFOs would translate into savings for the Company by shifting costs onto suppliers and lowering the Company's gas costs relative to the GCPP benchmark.

For all of the reasons provided above, I oppose Nicor's proposed language in the "System Operational Control" section of Rider 16. (Exhibit AEH-4, p. 9) I also oppose all proposed charges related to this section, all proposed language referencing this section, and all modifications to Rider 6 associated with this section.

## IV. GROUP ADDITIONS CHARGE

Q. Please describe the "Group Additions" charge in the Company's proposed Rider 16.

A. The Group Additions charge consists of the following provisions: (a) a $10 charge per each customer account added to a supplier's Customer Select group, except for customers switching to the group from sales service; (b) a $30 charge for each customer removed from a previously established non-Customer Select group (as specified on Sheet 51 within the Terms and Conditions); and (c) a 10% discount from a Chicago citygate price index on any payments made by the Company for gas in storage for the customer's account.

Q. Are these charges reasonable?

A. I have not investigated whether these charges are "cost justified," since Staff witness Sweatman was assigned that task. However, from the perspective of encouraging a competitive market, the $10 charge per each customer account added to a supplier's group has the potential to be anti-competitive.

While the proposed Customer Select program is available to large commercial and industrial customers, the program is targeted toward residential and small commercial customers. The margin for a supplier serving residential customers is minimal. The Group Additions Charge reduces the profitability of serving customers under the Customer Select Program, and may discourage suppliers from actively competing for small volume customers. Thus, the Group Additions Charge would not only effect Customer Select suppliers by directly reducing their profits as they sign more customers, but also could result in fewer customer savings as suppliers charge higher prices that reflect the incremental cost of other suppliers signing away their customers. Hence, in this regard, the $10 charge is not reasonable.

Q. Do you have an alternative to the $10 charge per each customer account added to a supplier's group?

A. Yes. I propose to eliminate the $10 component of the "Group Additions" charge and increase the Company's proposed $1 "Account Charge" in order to recoup the expected costs associated with the Company's proposed $10 charge. This will require only a slight increase from $0.88 (Staff witness Sweatman's recommended Account Charge) to $0.92 per customer account per month. The calculations for the Account Charge increase are contained in Exhibit 1.1 attached to this testimony. Recouping the costs on all customer accounts and not just on account changes eliminates the penalty for actively competing for and signing on existing transportation customers. Thus, my proposed change will increase the competitiveness of the Customer Select marketplace. Furthermore, since all customers benefit from the removal of barriers to switching regardless of whether they actually switch suppliers, recouping the costs of switching from all customers' accounts is reasonable.

Finally, since the expected cost is so small and since the Company sometimes will also be receiving a $30 charge for each customer removed from a non-Customer Select group and a 10% discount on storage gas reimbursements, the Company may be willing to eliminate the $10 group addition charge and forego **any** increase in the Account Charge. This would also be reasonable and beneficial to customers, in my view.

Q. Do you have any other recommendations with respect to the Group Additions provision of Rider 16?

A. Yes. While Staff is aware that the $30 fee specified on Sheet 51 of the Terms and Conditions but referenced in Rider 16 applies only to customers leaving previously established non-Customer Select groups, the tariff is not clear. To clarify, I propose to amend what is now the second sentence of the "Group Additions" paragraph in Rider 16, as follows:

> For Transportation Customers that are removed from a previously established non-Customer Select Group, the Fee for the Group Changes as specified in Terms and Conditions of this Tariff, Sheet No. 51, shall also apply.

## V. STANDARDS OF CONDUCT

Q. Please discuss the Company's proposed revisions to the "Standards of Conduct" section in Rider 16, Supplier Aggregation Service.

A. The section "Standards of Conduct" contains a list of standards that suppliers must adhere to as a condition of eligibility for service under Rider 16, Supplier Aggregation Service. Most of the standards are contained in the current Rider 16. However, the Company proposes three new standards and some revisions to the existing standards. The Company proposes the following new standards:

> e) promptly notify any current or past customers of any billing adjustment for cancels and rebills;
>
> (l) refrain from causing to be changed, the Customer's mailing address to a location accessible to the Supplier;
>
> (m) provide to each Customer added to or deleted from a Group they manage, a letter of explanation sent through the United States mail; (Harms Ex. AEH-4, p.11)

The Company also proposes the following revised standard:

> (g) ensure that Customers are given adequate prior notice (15 days) of termination of commodity service from the Supplier prior to any applicable contract termination or at least 15 days notice in the event of non-payment of Supplier services for more than 45 days; (Ibid.)

The Company proposes to reduce the time in between notice of termination of service and actual termination of service from 60 days to 15 days. The Company also proposes to shorten the length of time that a Customer can be in arrears with the supplier (from 60 to 45 days) before the Supplier can give notice of termination. The Company also proposes other revisions that are necessary due to the permanency of the proposed program.

In addition to the new and revised standards, the Company includes the following statement at the end of the "Standards of Conduct" section, "Failure to comply with the Standards of Conduct is a basis for removal as a qualified Supplier under Customer Select." (Harms Ex. AEH-4, p. 12)

Q. Do you have any recommendations concerning the "Standards of Conduct" section in Rider 16?

A. Yes. I propose additional language to make suppliers and customers aware that enforcement of the standards is subject to Commission oversight. That is, I recommend adding additional language that informs customers and suppliers of the right to file a complaint with the Commission if they believe that Nicor has failed to properly enforce the Standards of Conduct in Rider 16. Because this program is targeted toward customers and suppliers that may be less sophisticated than larger transportation customers and suppliers, I am concerned that these parties may be unfamiliar with regulatory procedures and incorrectly assume that the Commission does not oversee Nicor's enforcement of its tariff provisions.

To alleviate this concern, I recommend inserting the following language as the last sentence in Nicor's proposed "Standards of Conduct" section in Rider 16:

> Any party alleging improper enforcement of the Standards of Conduct may file a complaint with the Illinois Commerce Commission pursuant to Section 10-108 of the *Illinois Public Utilities Act*.

Q. Do you have any other recommendations regarding Nicor's proposed "Standards of Conduct" section in Rider 15?

A. Yes. I also oppose Nicor's proposed standard (l), which requires suppliers to "refrain from causing to be changed, the Customer's mailing address to a location accessible to the Supplier." (Ibid.) I discuss my opposition to this proposed standard below.

## VI. BILLING OPTIONS

Q. Please describe the various billing options available under the Customer Select Program.

A. In both the current Rider 15, Customer Select Pilot Program, and in Nicor's proposed Rider 15, Customer Select, suppliers have a choice of two billing arrangements. One option requires suppliers to provide their customers with a bill for the commodity portion of service only, and allow the Company to issue a bill for the distribution portion of service. In this case, the customer receives two separate bills. The other option allows suppliers to enter into an agreement that authorizes the utility to provide a single billing service, on behalf of the supplier, at an unregulated rate. In both arrangements, customers are required to remit their payment for distribution service directly to the Company.

Q. Does the Company propose any revisions to the current Riders 15 and 16 that pertain to billing?

A. Yes. Under the "Billing Date" section in the Company's proposed Rider 15, Customer Select, the Company has introduced new language to prohibit customers from designating suppliers as their bill recipient. (Exhibit AEH-4, p. 3) Also, under the "Standard of Conduct" section, in the Company's proposed Rider 16, Supplier Aggregation Service, the Company has added an additional standard of conduct that prevents suppliers from "..changing or causing to be changed, the Customer's mailing address to a location accessible to the Supplier."

Q. Do you have any recommendations in the area of customer billing?

A. Yes. I believe that alternatives to the billing arrangements proposed by the Company will provide benefits to both suppliers and customers without causing any undue harm to the Company or increasing risk to customers. I propose offering two additional billing arrangements to those proposed by the Company.

First, I propose a billing option that allows the customer to designate its supplier as the recipient of the Company's transportation bill. The supplier would then provide a single bill to the customer with the requirement that the Company's and the supplier's charges are listed as line items.

Second, I propose a two-bill/one-payment option. Under this arrangement, Nicor would provide the customer with a transportation service bill, for informational purposes, which would require no payment for services rendered. The customer could then remit the payment for both the Company's and the supplier's services directly to the supplier. The supplier would, in turn, remit the transportation portion of the customer's payment to the Company. This would provide customer's with an itemized bill for Nicor's services to verify amounts owed to the Company on behalf of the Customer.

Finally, to be consistent with the above recommendation, I oppose Nicor's proposed language restricting customers from designating their suppliers as the bill recipient and changing their billing address in the "Billing Date" section of Rider 15 and the "Standards of Conduct" section in Rider 16 respectively.

Q. Does Nicor offer similar billing arrangements to customers other than customers served under the Customer Select Pilot Program?

A. Yes. According to Nicor's response to Staff Data Request POL 1.2, attached to this testimony as Exhibit 1.2, "[T]he Company permits any customer, other than those served under *Customer Select*, to designate where their bill should be mailed." That is, Nicor customers receiving service under transportation tariffs other than the Customer Select Pilot Program have had the option of designating their supplier as their Nicor bill recipient. Nicor sales service customers can also designate other parties, such as family members or legal representatives, to be the recipient of their entire bill. I believe that Customer Select customers, at a minimum, should enjoy the same billing arrangements as other transportation and sales service customers. Furthermore, I see no legitimate reason for the dichotomy between Customer Select and non-Customer Select billing arrangements.

Q. Do you have other reasons for requiring the Company to offer single bill options as you have proposed above?

A. Yes. The Electric Service Customer Choice and Rate Relief Law of 1997 requires utilities to allow electric suppliers to offer a single bill option. Hence, allowing a single bill option for Customer Select customers maintains consistency between unbundled gas and electric service. I believe small customers can benefit from deregulation of both the gas and electric industry by having the option to receive a single bill for gas and electricity (and perhaps other services) from an agent of the customers' choice. Thus, my proposed single billing option has the potential to simplify the utility bill paying process and provide additional benefits to Customer Select customers.

## VII. CUSTOMER RESPONSIBILITY FOR SERVICES RENDERED TO SUPPLIER

Q. Please explain the section "Charges" in Nicor's proposed Rider 15, on page 3 of 12 of Exhibit AEH-4 in the Direct Testimony of Albert E. Harms.

A. Rider 15 contains a provision that would allow the Company to hold customers responsible for "gas related costs" billed to a customer's supplier. Specifically, under the section "Charges", Nicor proposes the following language:

> In the event full payment for services rendered to the Supplier, as provided under Rider 16, is not received from the Supplier, each Customer served by the Supplier shall be billed directly for any gas related costs originally billed to the Supplier for such service received at each Customer's service location for the applicable billing period(s), to the extent that such charges are not recovered from the Supplier's deposit, letter of credit or parental guarantee.

Customers taking service from a qualified supplier under Rider 15, Customer Select, enter into an agreement to purchase gas under specified terms. The customer is responsible for paying the charges of the supplier for natural gas commodity and the Company for distribution-related services. Suppliers are responsible for paying charges assessed by the Company under Rider 16, Supplier Aggregation Service. These charges include: the supplier application charge, monthly Group Charge, monthly Account Charge, Group Additions Charge, Cash-Out Amounts, Gas Supply Charge, Critical Day Non-Performance Charge, Operational Flow Order Non-Performance Charge, Required Daily Delivery Charge, Firm Delivery Charge, and a Month-End Required Delivery Non-Performance Charge.

The Company proposes to hold customers responsible for a subset of these charges in the event that the sum of a supplier's payments and deposit, letter of credit, or parental guarantee is insufficient to reimburse the Company for services rendered under Rider 16. The Company refers to the subset of charges as gas related costs. Although the term "gas related costs" is not specifically defined in Nicor's proposed tariff, the Company provided an exhaustive list of charges it considers to be gas related costs in a response to Staff Data Request POL 1.1. This data request response is attached to my direct testimony as Exhibit 1.3. These charges include recoverable gas costs under Rider 6, Gas Supply Cost. The Company also includes in its definition of gas related costs the following proposed Rider 16 Charges: Cash-Out Amounts, Gas Supply Charge, Firm Delivery Charge, Critical Day Non-Performance Charge excluding the $6.00 per therm charge, Operational Flow Order Non-Performance Charge, and the Required Daily Delivery Non-Performance Charge.

Q. Do you have a recommendation concerning the section "Charges" in Nicor's proposed Rider 15?

A. Yes. I recommend that the "Charges" section in Rider 15 be eliminated from the Company's proposed tariff. I oppose holding customers responsible for the failure of a supplier to fully reimburse the Company for services rendered.

Given Nicor's proposed language above, customers could be held responsible for their supplier's obligations to the Company in addition to their own obligations to the Company and the supplier, effectively charging customers twice for the same service. That is, Nicor is proposing to hold customers responsible for additional charges even if the customers has met all of their obligations to both the Company for distribution service and the supplier for natural gas supply.

Nicor can determine whether suppliers are meeting their obligations for gas related costs incurred by the Company by tracking payments from suppliers and, more importantly, by monitoring daily supplier nominations. Nicor will know very quickly if the supplier stops delivering the appropriate amounts of gas and thereby starts incurring substantial charges from the Company. If a supplier defaults on its obligations for services rendered, the Company can remove the supplier from the program. The customer is in no position to determine if suppliers are delivering appropriate amounts of gas and reimbursing the Company for services rendered, nor is the customer in position to pursue collection from suppliers.

Guidelines in the Company's proposed Rider 16 under the section "Company and Supplier Contract" require suppliers to "...provide adequate assurances of payment to the Company in the form of a cash deposit, letter of credit or parental guarantee...." (Harms EX. AEH-4, p. 9) This section also states, "[T]he Company shall evaluate the capabilities of the Supplier." The Company has taken on the responsibility of assessing a suppliers fitness on behalf of customers under Customer Select, but is unwilling to accept the responsibility if their assessment of a supplier's fitness was incorrect.

If a supplier fails to meet its obligations, the Company should remove the supplier from the program before the cost of services rendered to that supplier exceeds the sum of any payments from the supplier and the suppliers deposit, letter of credit, or parental guarantee.

## VIII. LOW INCOME FINANCIAL ASSISTANCE DISTRIBUTION

Q. Please explain how the Company intends to share financial assistance for low income Customer Select customers with suppliers.

A. Nicor proposes new language in the “Billing and Payment” section of Rider 15 that states:

> Monies received by the Company from third-parties, such as the Low Income Home Energy Assistance Program, for the benefit of the Customer, if agreed to by the contributing third-party, shall first be used to pay any Company amounts and then any amounts owed the Supplier. (Harms EX. AEH-4, p. 4)

The Company has clarified the exact order that it proposes for distributing financial assistance among suppliers and the Company in its response to Staff Data Request POL 1.3, attached to my testimony as Exhibit 1.4. If a customer is in arrears with both the Company and a supplier, the Company proposes to reimburse itself entirely before sharing any financial assistance with the customer's supplier. In other words, the supplier would see no financial assistance until all past due amounts owed to the Company were recovered.

Q. Do you have any concerns with the proposed method for sharing financial assistance for low income customers?

A. Yes. The tariff gives Nicor priority over suppliers for receipt of low-income financial assistance funds. I see no reason for this inequitable priority. The Company already has a bad debt expense built into its revenue requirement, and recovers costs associated with bad debt from all ratepayers. Furthermore, the Customer Select program would actually lower the Company's bad debt liability by reducing the value of services provided to its customers. That is, suppliers will bear the burden of bad debt related to gas supply rather than Nicor.

I recommend distributing financial assistance in the following manner. First, the amount owed to the utility on the oldest unpaid bill should be reimbursed, then the amount owed to the supplier on the oldest unpaid bill should be reimbursed.

Remaining monies should be applied first to amounts due to the Company on the second oldest bill and then to the supplier on the second oldest bill, and so on.

Q. Does this conclude your direct testimony?

A. Yes.

## Incorporation of Group Additions Fee Into Account Charge

| Item | 2001 | 2002 | 2003 | 2004 | 2005 | Total |
|---|---|---|---|---|---|---|
| Estimated Number of Bills | 2,370,000 | 4,503,000 | 5,727,000 | 6,288,000 | 6,288,000 | **25,176,000** |
| Previous Year's Participation | 122,500 | 320,000 | 422,000 | 524,000 | 524,000 | |
| Number of Customers Switching (5% of Previous Year's Participation) | 6,125 | 16,000 | 21,100 | 26,200 | 26,200 | 95,625 |
| Change of Supplier Revenues (*$10 per change*) | $ 61,250 | $ 160,000 | $ 211,000 | $ 262,000 | $ 262,000 | **$ 956,250** |

| | |
|---|---|
| Increase in Customer Account Charge ( = $956,250 / 25,176,000) | **$ 0.0380** |

**Northern Illinois Gas Company**
**d/b/a Nicor Gas Company**
**Response to:**
**Illinois Commerce Commission**
**Ill. C. C. Docket Nos. 00-0620 and 00-0621 Consolidated**
**First Data Request**

POL 1.1 Q. Please refer to the section "Charges" on page 3 of 12 in Exhibit AEH-4. Provide an explicit definition of the term "gas related costs". The definition should include all costs and/or charges that the Company could potentially recover from customers in the event that a defaulting supplier's deposit does not cover unpaid services rendered to the supplier.

A. "Gas related costs" refers to those costs that are included in the definition of recoverable gas costs in Rider 6, Gas Supply Cost. As provided for in Rider 16, gas related costs that could be recovered from customers are cash-out amounts, the gas supply charge, firm delivery charge, critical day non-performance charge excluding the $6.00 per therm charge, operational flow order non-performance charge, and the required daily delivery non-performance charge. Please see pages 6 and 7 of 12 in Exhibit AEH-4.

Company Witness: Albert E. Harms

**Northern Illinois Gas Company**
**d/b/a Nicor Gas Company**
**Response to:**
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**First Data Request**

POL 1.2 Q. Does the Company allow its residential sales service customers to designate other parties, such as legal representatives or family members residing at different addresses, to be the recipient of their bill? Does the Company allow transportation customers, served under transportation tariffs other than the Customer Select Pilot Program tariff, to designate other parties as bill recipients? Provide any Company policies or tariff provisions related to the designation of other parties as bill recipients for sales service and/or transportation customers.

A. The Company permits any customer, other than those served under *Customer Select* to designate where their bill should be mailed. The Company has no written policies or tariff provisions for designating other parties to receive a customer's bill.

Company Witness: Albert E. Harms

**Northern Illinois Gas Company**
**d/b/a Nicor Gas Company**
**Response to:**
**Illinois Commerce Commission**
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**First Data Request**

POL 1.3 Q. Please refer to the section "Billing and Payment" on page 4 of 12 in Exhibit AEH-4. Provide an example of the sequence that the Company intends to follow when distributing monies received by the Company from third parties for the benefit of Customer Select customers. Assume the monies received are for a customer that is two months in arrears and the monies are sufficient to cover the customer's past due obligations and some future bills also. How is the money distributed if it is insufficient to cover all of the customer's past due obligations?

A. Monies received from third parties would be allocated in the following manner:

1) Applied to Company arrears.

2) Applied to Supplier arrears.

3) Applied to Company current billing.

4) Applied to Supplier current billing.

The Company proposes to go through each step until the money is completely used up to pay the past and/or current bills. If money remains, the Company proposes that it be held for the customer and applied to future billings.

Company Witness: Albert E. Harms